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THE
GEORGE WASHINGTON UNIVERSITY
NAVY GRADUATE COMPTROLLERSHIP PROGRAM

BUDGET EXECUTION FOR THE
NAVY SUPPLY DISTRIBUTION SYSTEM

By
WILLIAM H. ROSS

For
DOCTOR A. REX JOHNSON
January 1956

128
GEORGE WASHINGTON UNIVERSITY
NAVY GRADUATE COMPTONSCIENCE PROGRAM

NAVY SUPPLY DISTRIBUTION SYSTEM
SYSTEM EXECUTION FOR THE

BY
WILLIAM D. BOSS

FOR
LORDS & LADIES - OCEANIC
January 1950

PREFACE

Budget Execution, as practiced by the Bureau of Supplies and Accounts for the Navy Supply Distribution System, is based upon several primary objectives. These are:

First, that a budget is an operating plan expressed in terms of financial requirements.

Next, that the budget process is an integrated cycle of formulation, justification and execution, all contributing to the accomplishment of the operating plan.

Next, that the best method of executing the budget requires first an operational review to assure that each field activity plan is in accord with the approved master plan and second, a financial review to assure that planned operations have been costed on the most efficient basis feasible.

Next, that successful accomplishment of the budget execution phase requires integrated reporting systems at the disposal of qualified management organizations.

Last, that improved efficiency, which is the prime objective of budget execution, can best be obtained by stimulating individual initiative through decentralized authority and responsibility.¹

¹Statement by Commander W. E. Durant Jr. (MC) USN, Project Manager for Supply, Office of the Comptroller, Bureau of Supplies and Accounts, 3 November 1963.

It is the purpose of this paper to describe the methods employed by the Bureau of Supplies and Accounts and the Field Installations of the Supply Distribution System in attaining these objectives.

For valuable help in gathering material and for supplying information on this subject, the writer is grateful to Commander W. B. Larent Jr. (LC) USN, Project Manager for Supply, Mr. W. Tredwell, Director, Statistics Division, and Mr. C. F. Glover, Director, Budget and Reports Division, all of the Office of the Comptroller, Bureau of Supplies and Accounts.

TABLE OF CONTENTS

Section	Page
I. BACKGROUND FOR BUDGET EXECUTION. The Navy Supply Distribution System The Budget Process Establishing the Objectives Developing Plans Translating the Plans Programming Budget Format Reviews and Adjustments Apportionment	1
II. REVISING AND SCHEDULING OPERATIONS. Development and Review of Field Operating and Financial Plans Financial Scheduling Allotment Scheduling	10
III. CONTROLLING OPERATIONS. Allotment Control Allotment Accounting and Reporting Allotment, Work Measurement and Cost Accounting Integration Workload Control Manpower Control Material Control Comptroller Organizations	19
IV. APPRAISING RESULTS. Reporting System Relationships The Analysis Process Conclusions	30
APPENDIX.	38
BIBLIOGRAPHY.	40

SECTION I

BACKGROUND FOR BUDGET EXECUTION

The Navy Supply Distribution System--The Supply Distribution System of the Navy is organized and functions to provide supply support to Fleet Operations and to the Shore Establishment. The Distribution System is comprised of forty-nine supply distribution outlets of which all but four are at tidewater locations. Stocks at these outlets are centrally controlled by Supply-Demand Control Points, Offices and Technical Bureaus of the Naval Establishment to meet the constantly shifting demand and changing priority of needs of the fleet.

The size of the fleet and its supporting elements as well as the level of its operations determines the workload of the Supply Distribution System. As the scope of over-all fleet operations changes, so does the volume and range of material moving in the supply system. Similarly, the primary workload, i.e. the number of line items and measurement tons handled, at supply outlets is affected both directly and indirectly. The costs of receiving, storing and issuing material as well as the maintenance and operation of the supply distribution outlets is financed as a "budget activity" under the appropriation "Service-Wide Supply and Finance, Navy." Management and financial control over the Supply Distribution system is exercised by the Bureau of Supplies and Accounts.

from consists of water all the time and at different locations. The distillation process is somewhat of a dry-state supply distillation. The supply is subject to these variations and to the degree of refinement. The system of the way is organized and designed to provide

Supply of needs of the fleet.

The size of the fleet and the supporting elements is well as the level of the operations determines the number of the Supply Distribution System. As the scope of operations fluctuates from time to time, so does the number and range of material moving in the supply system. Similarly, the system is designed, i.e., the number of the fleet and supporting elements is usually only a rough estimate. The fleet is divided into two parts: one is directed both directly and indirectly. The other is directed, assisted and leading material as well as the maintenance and operation of the supply distribution system is directed as a "direct activity" under the appropriate "service" and supply and "indirect activity". Management and financial control over the Supply Distribution System is exercised by the Bureau of Supplies and

The Budget Process.---Budget Administration by the Bureau of Supplies and Accounts is based upon the premise that a budget is an operating plan expressed in terms of financial requirements.¹ To review the Budget Execution phase in proper prospective, it is first necessary to examine the formulation and justification parts of the budget cycle and their overall relationship to the budgetary process of the Defense Establishment. Essentially, this process involves six principal steps: (1) Establishing national security objectives, (2) Forecasting or projecting military strengths necessary to realize the national objectives, (3) Preparing programs and developing operating and financial plans in terms of the forecast, (4) Review of these programs and financial plans within the executive branch and by Congress, (5) Scheduling and controlling commitments within the approved operating and financial plans, and (6) Appraising results. Steps one through three may be defined as Budget Formulation. Steps four as Justification, and steps five and six as Budget Execution.

Establishing the objectives.---The objectives of National Security are established by the National Security Council after assessment and appraisal of the commitments and risks of the United States in relation to its actual and potential power.² Following consideration of these factors, a statement of national security objectives is prepared by the Security Council setting forth the role of the military establishment. This statement is

¹Ibid, p. 11

²Public law 253, 80th Congress, July 26, 1947

The Budget Process—Budget Administration of the Government

of supplies and services is based upon the principle that a budget is an operating plan expressed in terms of financial requirements. To make the budget operating plan in proper perspective, it is first necessary to examine the formulation and justification parts of the budget cycle and their overall relationship to the budget process of the national establishment. Essentially, this process involves six principal steps: (1) establishing national security objectives, (2) determination of projecting military strength necessary to fulfill the national objectives, (3) preparing programs and developing operating and financial plans in terms of the forecast, (4) Review of these programs and financial plans within the executive branch and by Congress, (5) scheduling and coordinating commitments within the approved operating and financial plans and (6) operating results. Steps one through three are defined as budget formulation. Steps four and five are defined as budget execution, and six as budget evaluation.

Establishing the Objectives—The objectives of national

security are established by the national security Council after discussion and approval of the Committee and House of Representatives. The House is related to the actual and potential costs. Following consideration of these factors, a statement of national security objectives is prepared by the National Security Council which forms the basis of the military establishment. This statement is

evaluated by the Joint Chiefs of Staff who recommend the overall military strengths necessary to support the national objectives. These recommendations are examined by the Secretary of Defense, the National Security Council, President, and upon approval, become the guidelines for the services in planning their levels of operations and supporting budgets for the fiscal year.¹

Developing Plans.--Development of formal Navy planning begins upon receipt of the basic assumptions, guidelines and statement of military force requirements from the Secretary of Defense about eighteen months prior to the beginning of the fiscal year concerned. These objectives are translated by the Chief of Naval Operations into the annual peace-time program objectives plan of the Navy, i.e. the "Basic Naval Establishment Plan." This plan specifies annually the planned level of operations for the Navy, its strength, deployment, ship overhauls planned, number of hours to be steamed, aircraft hours to be flown, aircraft overhauls and other pertinent operating data. In translation, these programs endeavor to obtain each year not only what will be required to support the Naval Establishment during that year, but also those additions necessary to meet long range mobilization planning needs.²

Upon completion, the Basic Naval Establishment Plan is given a "one line" financial estimate by the Navy Comptroller.

¹Industrial College of the Armed Services, "The Federal Budget," Economic Mobilization Studies, mimeographed publication of the Industrial College of the Armed Services, 1953.

²Captain E. R. Grimm, USN, "CNO Plans Formulation" (Paper read at the Navy Comptrollership School, George Washington University, 30 Sept., 1955).

The "priced" plan is then reviewed by the CNO Budget Advisory Board who may adjust the scope of the programs and/or the balance between them. Upon approval by the Chief of Naval Operations and the Secretary of the Navy, this plan becomes the "first tentative" Basic Naval Establishment Plan and is distributed throughout the Navy Department to serve as the basis for preparation of detailed supporting plans and budget estimates by the several bureaus and offices.¹

Translating the plans.--The operating plans and budget estimates of the Bureau of Supplies and Accounts for the Supply Distribution System are developed to support the overall operating plans of the Navy, as set forth by the Chief of Naval Operations in the Basic Naval Establishment Plan. This is done by relating supply workload for each category of material to a specific operating element of the Basic Naval Establishment Plan.

Material categories in the Navy Supply system are classified as Technical, Personnel, and General. Included in the Technical Classification are ship parts, aviation parts, electronics, and ordnance. Included in the Personnel Classification are provisions, clothing, training aids and medical and dental supplies. The General Classification includes general stores, fuel and automotive spares.

Supply workload for the Technical Classification of material is determined by statistical correlation of active ships' tons to the value of ships' technical material used, and by correlation of operating aircraft to the value of technical aviation material used.

¹Ibid

The "policy" also is then reviewed by the OGD before delivery
Board and may appear the shape of the documents under the various
between them. Upon approval in the Office of Naval Operations and
the Secretary of the Navy, this plan becomes the "final decision"
which Naval Operations plan and is distributed throughout the
Navy Government as well as the data for preparation of technical
operating plans and orders designed by the Naval Engineers and
officer.

Translating the plan into operating plans and orders

Transfer of the purpose of the plan and orders for the Navy
Department is then made and approved as shown in the overall picture
plans of the Navy, as well as the Office of Naval Operations
in the Naval Operations plan. This is done by relating
each element for each element of technical and specific power
for elements of the Naval Operations plan.

Technical elements in the Navy plan are closely
tied to technical elements, and elements. Included in the plan
and classification the plan, technical, technical, and
operational. Included in the plan, technical, and elements.
operational, technical and elements and technical elements. The

General Classification includes general plans, local and executive
plans.

Plans are divided for the technical classification of plans
is determined by technical classification of plans and plans
the plan of technical elements, and by classification of
operating plans in the plan of technical classification plans.

Similarly, the workload for the Personnel Classification can be readily determined when the personnel strengths of the Navy are given, i.e., subsistence consumption, clothing, training aids, and medical and dental supplies correlate directly to personnel strengths. Finally, supply workload for General Material corresponds to the general operating level of the Navy and is correlated to the combined supply demand for Technical and Personnel materials. With known statistical correlations to operating elements of Navy plans, the Bureau of Supplies and Accounts predicts the future issue workload of the Navy Supply Distribution System. Similar proven statistical correlations are also employed for projecting material receipt and material maintenance workloads.

Programming.---is the first step in the programming process, the total workload forecast, i.e. line item receipts and issues and their measurement ton volume plus material maintenance workloads, is translated into the programs or major work functions performed by Supply Distribution outlets. An attempt is not made at this time to indicate who will do the work or where it will be done, rather, it is a determination of what will be done by the system as a whole expressed in terms of work functions. To facilitate management control and the budgetary process, the Bureau of Supplies and Accounts has integrated all elements of the Supply Distribution System. As a result, a work function or program means the same as a budget "sub-project," and the reporting systems employed are integrated to supply information on a functional basis as to what work was accomplished, how much it cost in terms of total dollars, unit costs, composition of costs, total manpower

and labor productivity and why the work was done i.e. to support ships, planes, men, etc. By relating what has happened in the past to the workload forecast, development of budgeting estimates for the Supply Distribution System is essentially a matter of relating workload to operating criteria and projecting costs and manpower based on the curve of the workload forecast.

Budget Format.--Detailed instructions and guidelines for the preparation and presentation of budget estimates are issued by the Comptroller of the Navy. This "call for estimates" is usually released about fifteen months prior to the beginning of the fiscal year under consideration, and is based upon the first tentative Basic Naval Establishment Plan as distributed by the Chief of Naval Operations. While the Comptroller's instructions are necessarily detailed and lengthy, they provide primarily for the submission of a "budget book" with detailed supporting annexes for each appropriation.¹ The Budget Book for the appropriation "Service-wide Supply and Finance, Navy" includes a table of contents, the appropriation introduction, explanation of language changes, summary of obligations and the justification for each Budget Activity.² As the Supply Distribution System is a budget activity of this appropriation, a summary of obligations is included for the Supply Distribution System for the prior year plus estimates for the current and projected fiscal years. This summary is supported by a detailed annex for each of the three fiscal years

¹Office of the Navy Comptroller, "Instructions for Preparation of Budget Estimates." NavComp Instruction 7110.6, 21 August 1953.

²Bureau of Supplies and Accounts, Department of the Navy.

concerned, showing for each Project and Sub-project the workload factor, the workload unit cost, total obligations (actual or estimated), and any differences between current year and projected year costs. In addition, the budget book contains individual justifications setting forth the purpose and scope of the work and a justification of the funds requested for each budget project. Prepared as separate annexes are estimates for facilities, manpower, research and development projects etc. necessary to maintain and operate the Supply Distribution System. In developing the budget submission and the related justifications, emphasis is placed upon describing the Supply Distribution System in terms of the operating plan it is designed to support.

Reviews and Adjustments.--The budget is prepared for the Supply Distribution System for a twofold purpose--first to provide a management tool for operations and second, to facilitate management reviews. The first budgetary review is conducted by the Navy Comptroller and the Chief of Naval Operations for the Navy. This review is primarily an analysis of how effectively and economically the first Tentative Basic Naval Establishment Plan has been funded, and to assure that a well balanced program for the Navy has been developed. Following approval of the Chief of Naval Operations and the Secretary of the Navy, a joint review is conducted by the Department of Defense and the Bureau of the Budget. The major objective of the Department of Defense in the budgetary hearing process is to assure an equal balance of readiness between the military services, while the primary interest of the Bureau of

Budget is directed toward the relationship of the overall defense budget to the National Budget. After "mark-up" of the Navy Budget by the Bureau of the Budget, a second tentative Basic Naval Establishment Plan is prepared by the Chief of Naval Operations to reflect any changes made by the Department of Defense and the Bureau of the Budget. Upon receipt of the second plan, the budget for the Supply Distribution System is modified accordingly.

At the beginning of the regular January session the President submits the national budget to Congress where it is referred to the Appropriations Committee of the House. Hearings are conducted by subcommittees at which time Departmental Budget and Operating officials explain and defend their progress and cost estimates. Upon completion of committee action the bill is introduced on the House floor. Following passage of the bill by the House, similar action is taken by the Senate, except that committee hearings are usually much more limited in scope. Upon joint House and Senate agreement, the appropriation bill is transmitted to the President for approval and signature into law.

At this time the Chief of Naval Operations modifies the Basic Naval Establishment Plan for the third and final time. This plan, incorporating any changes made by the Congress, becomes the Operating Plan of the Navy for the fiscal year. The supporting plan for the Supply Distribution System is modified accordingly and becomes, in turn, the operating and financial plan for the Supply Distribution System for the ensuing year.

Apportionment.---About two months prior to the beginning of the fiscal year, a request for quarterly apportionment for the appropriation "Service-wide Supply and Finance, Navy" is prepared for submission to the Bureau of the Budget. Reviews and hearings on the apportionment request are conducted by the Navy Comptroller, Secretary of Defense and the Bureau of the Budget. These hearings are held primarily to reappraise work plans and cost estimates in light of current operations or other considerations. Following hearing action, the Bureau of the Budget issues an advice of the approved apportionment schedule. The approved schedule is then reviewed and certified by the Secretary of Defense and transmitted to the Secretary of the Navy. Upon receipt of the approved apportionment schedule, the Comptroller of the Navy issues quarterly allocations to the Chief, Bureau of Supplies and Accounts for each budget activity of the appropriation "Service-wide Supply and Finance, Navy." Upon receipt of the quarterly allocation for the Supply Distribution System, the Bureau of Supplies and Accounts schedules and funds the operations of the Distribution System and the budgetary process moves into the execution Phase.

SECTION II

REVIEWING AND SCHEDULING OPERATIONS

Objectives of Budget Execution.--One of the primary purposes of the Bureau of Supplies and Accounts in performing operational and budgetary planning is to develop a definite plan whereby coordination and control over every activity of the Distribution System is secured and directed towards accomplishment of Navy Plans and objectives. Unlike the formulation phase wherein the Bureau dealt with a single master plan, the execution phase deals with multiple plans, one for each of the forty-nine supply outlets of the Distribution System. To secure coordination and control over the system, operating plans and supporting budgets are prepared quarterly by each field activity. These plans are reviewed operationally by the Bureau of Supplies and Accounts to assure that each plan is in consonance with the approved master plan. Secondly, the plans are reviewed from a financial viewpoint to assure that planned operations have been priced economically and are within the overall budget allocation. Allotments to field activities are then scheduled in line with the master and approved installation plans. To assure the most efficient and effective functioning of the system, authority and responsibility for activity performance is decentralized to field commanders and reporting and control systems are designed to provide current operating and financial

status for management use. As the plan operates, results are appraised and variances between actual and planned performance are investigated as a basis for management action.

Development and Review of Field Operating and Financial Plans.--Quarterly, each field installation of the Distribution System prepares an operating and financial plan entitled "Allotment Request and Justification" for the ensuing quarter. This plan is developed on a functional basis in three essential parts i.e. a workload forecast, a staffing plan and estimated financial requirements. These plans are submitted to the Bureau of Supplies and Accounts prior to the tenth day of the month preceding the quarter concerned.¹

Development of workload forecasts by Supply outlets is based upon analysis and evaluation of three separate types of planning information. Historical issue trends are developed by analysis of customer issue patterns to isolate non-recurring issues from stable customer demand. Stable demand is then related to consumer activity by quantity and category of material used--as a basis for predicting future issue workloads. Semi-annually, Supply Demand Control Points furnish field activities projected receipt patterns, listings of special projects to be supported and preservation, test and repair or other material maintenance projects to be accomplished during the period. In addition, the Bureau of Supplies and Accounts provides an annual forecast of overall system

¹Bureau of Supplies and Accounts, Department of the Navy, BuSanda Management Handbook, NavSanda Publication 285, para. 22203.

trends and levels of operation planned for the fiscal year. On the basis of this information, together with other known operating factors, field installations forecast overall activity workloads.

After development of the overall receipt, issue and material custody forecasts, these projections are translated into the functional workloads to be performed by the various organizational segments of the field activity. As some functions are internal in nature, their workload is not influenced by receipts, issues or material maintenance. Such functions as building and ground maintenance and disposal are in this category. Levels of work for these functional categories are determined separately by the Bureau of Supplies and Accounts and the activity concerned. To assure operational feasibility, organizational heads responsible for operating functions actively participate in the planning and development of field activity workload plans.

With development of a functional workload plan, the staffing necessary to perform the workload is computed. By utilizing functional workload forecasts and functional production rates developed from Supply Work Measurement performance, the productive man-months required for each supply function are calculated. Staffing requirements for administrative and support functions are determined on a similar basis for areas covered by other work measurement programs. Staffing needs for organizational areas not covered by work measurement are administratively determined. Following computation of the overall productive man-months requirement, overtime man-months, man-months supported by other funds,

and military and contractual man-months are deducted to arrive at the civilian productive man-months requirement. To translate productive civilian man-months into the funded complement required, a nonproductive factor, to cover sick, annual, terminal and holiday leave, plus a small funding gap, is added.

The third major step in field planning is the determination of the funds required to support the planned workload. Cost accounting records provide the basis for financial computations. As these records are maintained to reflect costs for labor, material, contractual services, rentals, printing, etc., on a functional basis, financial planning is simplified. Labor costs are determined by calculation of average salary per function times the average functional employment need. As field activities are staffed to handle an average workload only, an overtime factor cost is included to provide for workload peaks. Material requirements used in operations such as packing, preservation, storage, etc., are based on labor to material ratios developed for each function as modified to reflect current market cost trends. Costs of Contracted Services such as machine rentals, stevedoring, utilities, maintenance services, etc. are based on local contract rates. Other costs such as travel, printing, etc. are based on planned requirements. Following computation of total functional costs, nonproductive time and funding gap costs are added and the financial plan is ready for submission to the Bureau of Supplies and Accounts for operational and financial review.

Operational and financial plans of Supply Celllets are reviewed by the Bureau of Supplies and Accounts to assure that

all segments are in consonance with and support the master plan. Furthermore, each segment of the plan is scrutinized to assure that field plans have been developed economically. In the review process particular attention is accorded functional production rates and unit costs. Each activity's functional production rates and unit costs are analyzed and compared against the activity's past performance and current trends. Like activities are compared against one another and against system standards and plans. Work-load forecasts and staffing plans are analyzed in a similar manner. Upon completion of the operational and financial review, a "Funds Planning Letter" is developed for each Supply Outlet. These letters review workloads, complements, productivity trends, and areas wherein attainable improvement in productivity is desired. They analyze costs and forecast in general terms, the extent of planned employment and funds scheduled for the fiscal year. These letters are designed to fit each segment of the Distribution System into the overall system plan. Through conference or correspondence, a common understanding between field activities and the Bureau of Supplies and Accounts is reached. These approved agreements become the annual operating and financial plans of field installations for the ensuing year.

Financial Scheduling.--/Authorization to incur obligations and make expenditures against the "Appropriation Service-Wide Supply and Finance, Navy" evolve from the Bureau of the Budget in the form of approved apportionment requests. The approved apportionment clears through the Department of Defense to the

Comptroller of the Navy. On the basis of the approved apportionment schedule, the Comptroller issues quarterly allocations for the Supply Distribution System to the Bureau of Supplies and Accounts. The Bureau of Supplies and Accounts is held directly responsible by the Secretary of the Navy to assure that commitments, obligations and expenditures of funds made available through the apportionment and allocation process are not exceeded.¹ To carry out this responsibility, administrative control over funds granted the Bureau of Supplies and Accounts is delegated to the Comptroller of the Bureau of Supplies and Accounts.² In view of the legal and administrative penalties attached to an obligation or expenditure in excess of an allocation, or any other grant or subdivision of an appropriation, rather detailed administrative restrictions and controls govern the obligation and expenditure process.³ To assure control within the Bureau of Supplies and Accounts, all proposed commitments or obligations by project managers or others must be referred to the Comptroller for approval, recording of the commitment and issuance of an obligational authority.

¹Statement of the Sec. of the Navy before preparedness Subcommittee No. 3 for the Implementation of Title IV of the Natl. Sec. Act Amendments of 1949, Senate Armed Services Comm., Nov. 3, 1953, p. 6

²Bureau of Supplies and Accounts, Navy Department, Organization Manual, Nav SendA Publication 70, Revised 29 Dec., 1950, p. 54a

³See Secretary of Defense Directive "Administrative Control of Appropriations Within the Department of Defense," issued 20 March 1952, and revised 11 August 1954; and Section 3679 of the Revised Statutes, as amended by Section 1811 of Public Law 759, 81st. Congress for additional information regarding responsibilities in funds administration.

Authorizations to incur obligations are granted by the Bureau of Supplies and Accounts in several different forms. Quarterly maintenance and operating allotments are the most common type used and approximately seventy-five-percent of all funds available under the appropriation "Service-Wide Supply and Finance, Navy" are committed by this method.¹ The amount granted each field activity is determined on the basis of the approved annual Funds Planning Letter as modified by review of field activity quarterly operating and financial plan submissions.

Project orders represent the second type fund authorization employed. Allocations of this type are granted mainly for capital repairs or improvement projects of a nonrecurring nature scheduled for performance by field activity forces.

Requisitions, as submitted to the Bureau of Supplies and by field activities, comprise the third method of funds allocation. Requisitions may be approved within budget limitations to cover three main categories of purchase contracts. (a) Contractual Services, leases, machine rentals, etc.; (b) Bureau controlled equipment purchases, e.g. trucks, fork lifts, and etc.; and (c) alterations to field installations facilities, e.g. buildings, roads etc., to be performed by private contractors.

Equipment allotments make up a fourth category of funds allocation. These allotments are made semi-annually to field activities to cover local procurement of minor field equipment

¹Statement by Mr. E. M. Slover, Director, Budgets and Reports Division, Bureau of Supplies and Accounts, Nov. 3, 1955.

such as shop machinery, office furniture and equipment and other items of minor plant account property.

Open allotments represent another means of funds allocation and this method is utilized by the Bureau of Supplies and Accounts for commercial transportation.¹ This type allocation does not involve issuance of individual allotments to field activities. Rather, funds are available under blanket authority for obligation by authorized shipping activities. Theoretically the Bureau could cancel open allotment obligational authority if deficiencies threatened. In practice, if deficiencies appear likely, funds are re-programmed or a supplemental appropriation is requested.²

Other but seldom used types of funds authorizations include "Inter-bureau Citation of Funds," "Military Inter-departmental Purchase Request," and "Printing Orders."

Allotment Scheduling.---The Bureau of the Budget and the Navy Comptroller apportion and allocate funds on a quarterly basis, this sets the pattern for quarterly allotments by the Bureau of Supplies and Accounts for the maintenance and operation of its field activities. Allotments or other funds authorization issued field activities are made to the Commanding Officer who is held directly responsible for their proper administration and control. Penalties earlier described for over-obligation or over-expenditure of a funds authorization apply equally to field installations. While quarterly field operating and financial plans are reviewed

¹Refer Navy Comptroller Manual Vol. 2, Chapt. 3, Part 1, Sec. II for additional information on open allotments.

²Slover, Op. Cit.

and scheduled by the Bureau of Supplies and Accounts on a functional basis, the allotment grants are not restrictive by function. Hence, within the total amount of the allotment authorization, the Commanding Officer of a field activity may reschedule or reprogram as necessary to meet changes in workload schedules or to obtain more efficient, economical or effective work performance.

SECTION III

CONTROLLING OPERATIONS

To assure coordination and proper functioning of the Supply Distribution System, control procedures and reporting systems have been developed and integrated to provide a continuing flow of data on operating and financial performance. These systems are designed to supply current information for allotment, cost, workload, man-power and material control purposes. To assist management in planning, reviewing, evaluating and controlling operations, comptrollership staffs actively function at the Bureau of Supplies and Accounts and at field installations of the Supply Distribution System.

Allotment Control.--Prior to the beginning of each quarter, the quarterly maintenance and operating allotment and the approved operating and financial plan are received by field activities from the Bureau of Supplies and Accounts. The approved Operating and Financial Plan establishes the financial and work plans by function for the following quarter. If the workload and costs experienced by each function were identical with that set forth in the approved plan, there would be little need for any system of allotment control. However, as there are always price differentials and other unforeseen cost variances, a memorandum "pre-validation" system of control is employed by Field Activities to preclude over obligation. To this end, the quarterly maintenance and operating allotment is

apportioned according to the approved functional plan, and "Planning Estimates" are issued to designated operating officials. Planning Estimates set forth personnel ceiling limitations and dollar limitations for labor, material, services, overtime and travel. Prior to creating an obligation for material services, overtime or travel, obligating documents in estimated amounts are "pre-validated" against available balances. Labor costs are controlled through ceiling restrictions and where necessary, by man-hour limitations. To reduce administrative costs, planning estimates normally include a number of allotment function apportionments, thereby reducing to a minimum the number of memorandums "pre-validation" records and the man-hours necessary to maintain them.

Allotment Accounting and Reporting.-- At the time of receipt of the allotment authorization from the Bureau of Supplies and Accounts, an allotment record is established by the Fiscal Department in the amount of the allotment grant. Similar records are established for allocations made by local Planning Estimates. As the plan operates, obligations and liquidating expenditures are posted to these records. To reconcile pre-validation memorandum records to official fiscal balances, allotment status reports are prepared and distributed at periodic intervals. These reports record, on a cumulative to date basis, the status of actual labor, material, services, overtime and travel obligations.

At the end of each month, an official overall allotment status report is furnished the Bureau of Supplies and Accounts as a basis for direct control over the overall system budget activity allocation. In addition, a second report is furnished the Bureau

of Supplies and Accounts and local management to show unliquidated obligation balances by expenditure account. This latter report is prepared from an unliquidated obligation voucher file and is carried at both Bureau and local levels with cost reports of actual expenditures by expenditure account. The carried product provides Bureau and field management with the information necessary to appraise actual functional obligation rates against planned functional performance.

Allotment Work Measurement and Cost Accounting Integration.

Expenditure accounts are designed to collect costs according to specified functional purposes. Under the integrated system employed by the Bureau of Supplies and Accounts, expenditure accounts identify obligations as well as expenditure to the functional operations performed. In addition, expenditure account descriptions are the same as work measurement functional descriptions. Thus, work performed and obligations and expenditures incurred by each function, are the same for work measurement as for allotment or cost accounting. The key to the integration of cost accounting, work measurement and allotment accounting is the job order system. Job orders are designed to collect cost data by expenditure account purpose, functional operation, allotment number, budget activity, and appropriation; to collect man-hours for work measurement reporting; to schedule specific tasks to be performed in carrying out functional workload plans, and to provide for simplified management and allotment control by specifying what organizational units can charge and the type charges i.e. labor, material services, etc., each organizational unit can incur. When a

"specific" job order is employed, type charges are limited to specific amounts.

Job order reports are prepared monthly as a basis for determining the number of productive man-hours employed by function for work measurement reporting. Also, as earlier described, expenditure account cost data is accumulated from job order reporting which, together with reports of unliquidated obligations, provides the basis for controlling functional operating costs, and the individual cost elements, i.e. labor, material, contractual services, travel and overtime.

Workload Control.--Operating and administrative control over work performance at field activities and the Supply Distribution System is attained, in part, from the information supplied by the Supply Work Measurement System. While field activities also employ work measurement programs to control the public works, fiscal and industrial relations functions, comment is limited here to the Supply Work Measurement System.

The work measurement system employed by the Bureau of Supplies and Accounts provides a means of maintaining an equitable relationship between workload and manpower as well as providing a factual basis for management planning, control and improvement, and for budget administration.¹ As a tool for management control, work measurement supplies, on a functional basis, information necessary to evaluate actual work performance against planned; the effectiveness of personnel performance; and together with the

¹Bureau Management Handbook, Op. Cit., p. 5-2.

cost accounting system, actual functional costs and unit costs of work performed. For purposes of management improvement, work measurement records work backlogs, and provides the basis for planning and scheduling the "what," "when," and "how" workloads will be accomplished. For the budgetary process, work measurement supplies actual experience as a basis for projecting, justifying and analyzing functional production, productive rates, productive costs and personnel staffing.¹

The Supply Work Measurement System is designed as a measure of group work performance. At functional and sub-functional levels, units of measure have been selected that best describe the workloads performed. Actual work units completed are tabulated statistically and reported as of the end of each month. Productive and nonproductive man hours are assembled from the job order reporting system. Together productive man hours and work units completed provide the functional production rate. By statistical evaluation of functional production rates over a period of time, functional standards have been developed for each field activity, for groups of like activities, and for the system. On the basis of standards, functional performance indexes have been established, against which actual performance, in terms of trends or specific variances, can be analyzed. Functional work measurement performance reporting is presented graphically with accompanying tables and interpretative comments for management purposes at both Bureau and Field levels.

¹Office of the Assistant Secretary of the Navy for Air, Manual for the Integrator Work Measurement System, NAVJOS n. 616, Aug. 1950, pps. 89-90.

and the other two have been found to be of the same type. The first of these is a small, dark, oval-shaped object, about 1/2 inch long and 1/4 inch wide. It is covered with a fine, granular texture, and has a small, dark, circular mark on its surface. The second of these is a larger, more elongated object, about 1 inch long and 1/2 inch wide. It is covered with a similar granular texture, and has a small, dark, circular mark on its surface. The third of these is a small, dark, oval-shaped object, about 1/2 inch long and 1/4 inch wide. It is covered with a fine, granular texture, and has a small, dark, circular mark on its surface.

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Manpower Control.--In order that total civilian employment at field activities may be limited to the maximum number of billets allocated to the Bureau of Supplies and Accounts, a system of ceiling control is employed. Under this system civilian ceilings are established, and adjusted quarterly on the basis of workload need, for each field installation of the Supply Distribution System. While the basis of the ceiling allocation is the funded complement as determined from the approved quarterly operating and financial plan, this number is adjusted by deducting any complement paid by the appropriation "Service-Wide Supply and Finance, Navy" but under the ceiling control of another Bureau. To this amount is added the number of employees paid by other appropriations but under the Bureau of Supplies and Accounts ceiling allocation, plus an allowance for employment fluctuations. Field activities maintain control over employment to assure that authorized ceilings are not exceeded. Semi-monthly on-board reports are made to the Bureau of Supplies and Accounts so that proper utilization of manpower throughout the system can be maintained.¹

Material Control.--"Work measurement data (man-hours expended and work units) alone, while providing a basis for evaluating work performance, does not provide sufficiently detailed information to meet all management needs. Equally as important as work efficiency is the effectiveness of the work performed. To meet this need, supplemental management data is compiled by each function for budgetary planning, effectiveness control, and

¹ Rusland's Management Handbook, op. cit., p. 111.

management analysis. For budgetary purposes, this system supplies information regarding the number of line items received and issued and the measurement tons handled by material type and category. It also furnishes information on the nature of the supply support furnished, i.e. issues for fleet support, for activity use etc. Further, this system records the type and source of material receipts and the nature of packing, preservation, storage operations, and other material custody operations performed. This information, correlated to reports on operating elements of the Basic Shore Station Development Plan, provides management with a means of evaluating current overall support effectiveness as well as a sound basis for projecting future workload plans.

For effectiveness evaluation, this system supplies such information as inventory turn-over; issue processing time in making issues from stock; consolidation and tide water holding times; inventory recount ratios; types of procurement actions taken; disposal volume, productivity, cost and recovery percentages; types of packing and preservation actions taken; measurement tons handled in and out of storage and for rewarehousing purposes; stock availability, issue effectiveness and other detailed inventory control data; and data on tonnage, type and origin or destination of material movements.¹ This information is recorded statistically by function, and is reported monthly in conjunction with work measurement reporting. This data is tabulated, charted and furnished operating officials for effectiveness evaluation of activity and system operating performance.

¹Ibid, p. 5-63

Comptroller Organizations.--Comptroller Organizations are established within the Bureau of Supplies and Accounts and at major field installations of the Supply Distribution System. The primary importance of the comptrollership function is that of providing management at all organizational levels with a coordinated and integrated staff service which will contribute to the efficient and effective operation of field activities and the system.¹

Bureau Level.--In the overall organization of the Bureau of Supplies and Accounts, the Comptroller reports, in staff capacity, to the Chief of the Bureau of Supplies and Accounts. In practice, he also works for the line operators of the Bureau through the media of the staff services his organization provides.

Appendix A lists the detailed organization and functional responsibilities of the Comptroller, Bureau of Supplies and Accounts. This organization is composed of three divisions whose functioning, as pertains to Budget Execution, is summarized by the following generalizations. The first division, the Statistics Division, is comprised of four branches. In the Work Measurement Branch are received the reports from the Work Measurement Reporting System. In the Material Statistics Branch are received data from the Material Reporting System. The Service Statistics Branch collects statistics on commercial operations which are comparable to Navy operations. The statistical data received by these branches is checked, compiled and analyzed. In the Management

¹Statement of the Secretary of the Navy Before Preparedness Subcommittee No. 3, Op. Cit. p 4.

Statistics Branch the various statistical data are brought together for the consolidated system and for individual activities, as a basis for statistical reporting to all levels of management.

The Internal Control Division receives the data from the Cost Reporting System and the Allotment Accounting Reporting System. Here total functional costs are collected and functional unit costs calculated as the basis for cost analysis and control.

The Budget and Reports Division is composed of three branches. In the Budget Branch are received the cost and statistical data from the Statistical and Internal Control Divisions. Here the data is used as a basis for determining current financial position, and to develop future budgetary projections. It is in this branch that funds planning letters are prepared and where field operating and financial plans are reviewed. In the Reports Branch, all data is consolidated as the basis for performing the program progress and special reporting functions of the Bureau of Supplies and Accounts. The Manpower Branch receives the semi-monthly reports from the Manpower Reporting System and administers and controls the civilian manpower ceilings.

Reporting at staff level to the Comptroller are Project Managers. Project Managers also report to an applicable Assistant Chief of the Bureau to administer all financial matters relating to the type operations under his cognizance. It is the responsibility of Project Managers to assure that all operating aspects of plans are given full consideration in financial administration. Field Operating and Financial plans, funds planning letters and other related funding matters are referred to or jointly developed

with Program Operators. Although final control of funds rests with the Comptroller, clearance of proposed action through Project Managers and Program Operators assures coordination of financial and operational projects and plans. As a further point of coordination control, Project Managers serve in liaison capacity with field activities.

Field Level.--The comptrollership function at major field activities of the Supply Distribution System is performed by a Planning and Comptroller Department which reports at staff level to the Commanding Officer. At small field activities, Comptrollership functions are performed, although a formal Comptroller Department as such, is not established. The Planning and Comptroller Department is composed of the Budget, Statistics, Internal Review, Management Planning, and Military Plans Divisions. Appendix "B" sets forth the detailed organization and functional responsibilities assigned these divisions. It is significant to note that the counting record keeping and reporting functions are not included as functions of the Planning and Comptroller Department, but are performed by a separate Fiscal Department. The major organizational relationships and functioning of the Planning and Comptroller Departments as relates to the Budget Execution Process, are summarized in the following generalizations. The Budget Division, in conjunction with operating officials, develop the activity workload forecasts and the quarterly operating and financial plans. On the basis of Bureau approved workload, staffing and financial schedules, Planning Estimates and personnel ceilings are established by the Budget Division. As the Plan operates, the Budget

Division analyzes financial and operating performance and recommends remedial action.

The Statistical Division collects, analyzes, arranges, interprets and reports on work measurement performance. This division also prepares charts, graphs and prepares other visual aids for activity reporting and management analysis purposes.

The Internal Review Division performs the internal audit function, to assure that activity accounting and fiscal records, systems and reports are accurate and effective.

The Management Planning Division contributes to management effectiveness through the conduct of management engineering surveys, development of improved systems and procedures, control over activity organization, and working relationships, and by administering management control programs and performing special management studies.

Effective performance of the comptrollership function at Bureau and field levels relieves operating management of much of the burden of detailed fact collection, coordination and analysis. It also permits top management to spend more time in the areas of policy formulation, decision and system or activity direction.

SECTION IV

APPRAISING RESULTS

As the plan operates, the reporting systems generate financial, operating and statistical data on actual performance. This data is collected and analyzed by the Comptrollers' organization within the Bureau of Supplies and Accounts, and by the staff organizations performing the comptrollership function at field activities. These organizations evaluate actual performance against planned, conduct analysis of significant differences or trends, and prepare reports on operating results for top management and operating officials. On the basis of performance reporting management at Bureau or Field level institutes corrective measures or causes system and field operating and financial plans to be modified in light of changed Navy plans or system needs.

Reporting System Relationships.--The reporting systems employed by the Bureau of Supplies and Accounts, through integration, provide the basis as well as a simplified means for appraising financial and operating results. The allotment reporting system supplies the rate at which funds are being obligated as a check against planned system and field activity obligation schedules. The financial reporting systems tells for each supply function, field activity, and for the system as a whole, what the actual costs were to operate, and the composition, i.e. labor, material, etc. of the costs. The work measurement system reports function

by function the volume of work accomplished and productive man hours employed. Together, the financial and work measurement systems record actual unit costs and production rates for each function. The material reporting system records and reflects what kind, how much, and where material is being issued to use. Finally, Navy Operational reporting systems supply information as to Navy operations e.g. ship overhaul data, aircraft overhaul data, civilian personnel data, etc. From actual performance information supplied by these reporting systems on a functional, activity or overall basis, comparisons are made against planned financial and operating performance.

The Analysis Process.--The analysis process involves the comparison of actual performance against planned, the evaluation of significant variations and preparation of reports for management. In the analysis process, the Bureau of Supplies and Accounts compares cumulative progress with cumulative plan as well as current time period data. All factors that were included in the formulation of overall system and activity plans are reviewed in this manner. The operating criteria as set forth in the Basic Navy Establishment Plan is compared with actual Navy operations. Deviations are examined to determine their effect on Supply Distribution System plans and operations. Actual and planned production, actual and planned costs, actual and planned funding, and actual and planned qualitative performance is examined by function, by activity and for the system as a whole.

To facilitate these reviews, system and activity analysis records are established and maintained. The system and activity

performance analysis records reflect monthly workload and manpower effort by function and chart utilization trends. The system and activity cost records reflect total and unit costs by function on a monthly comparative basis. From the analysis reviews and the performance and cost records, a "Supply Operations Digest" is prepared and distributed monthly for Bureau and field activity management use. This digest is prepared in two sections. Section I contains system wide data, with interpretative comments, indicating highlights of workload trends in terms of total manpower utilized and workload--manpower relationships. This section also contains system-wide data by functional area in terms of total workload accomplished, effort expended and rates of productivity. Graphic illustrations chart workload trends for the current and past fiscal year on a to-date basis for comparative purposes. Section II contains tables of activity operational trends, indicating individual activity volumes of demands, receipts, tonnages handled, overall performance indices, and other detailed comparisons and relationships.¹ In addition, special summary digests are prepared for top management, highlighting overall system positions and trends. Significant problem areas are made the subjects of special studies and separate reports to appropriate management levels. At field activity level, the analysis process is varied. However, essentially, the same records and techniques are employed in reporting operating and financial performance to the various management levels.

¹Bureau of Supplies and Accounts, Department of the Navy, Supply Operations Digest, Navy and Publication 487, June 1955.

On the basis of performance reporting, operating and top management officials can determine wherein variances from operating and financial plans are being experienced and what corrective measures would be taken to assure continued economical and efficient support to the operating forces.

Conclusion.--The effectiveness with which the Supply Distribution System has functioned in meeting the operational needs of the Fleet and the Shore Establishment has been clearly demonstrated through two recent years. In the area of financial management, increasing attention has been accorded the task of strengthening the budgetary process and financial management since the enactment of Title IV of the National Security Act of 1949. While many of the features incorporated in the Act were employed for the Supply Distribution System prior to its enactment, increased emphasis has been placed on budgetary policy and procedures improvement. As current examples, the Bureau of Supplies and Accounts is presently engaged in developing engineered standards for supply functions at field activities. In the area of workload forecasting by field activities, studies are in progress seeking improvement in forecasting methods. However, the best yardstick for measuring the efficiency of the system is by examining the system productivity and cost trends. Rather than belabor the reader with a detailed list of specific functional productivity and cost trend improvements, it is enough for this purpose to point out that significant accomplishments in these areas have been attained and that much of this success is attributable to the soundness of the basic methods employed by the Bureau of Supplies and Accounts in the Supply Distribution System Budget Execution Process.

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APPENDIX A CONTROLLER OF BUREAU (CD)

Project Managers and Field Liaison (PM)

- (1) Guidance and review in the development of the Price Operating Plan.
- (2) Guidance and review in the development of fund allocations and allotments.
- (3) Guidance and review in the development of manpower ceilings.
- (4) Review and recommendations to line management concerning fiscal aspects of operations.
- (5) Advice and recommendations to Controller concerning operational aspects of fiscal administration

Statistics Division (SD)

- (1) Coordination of statistical reporting.
- (2) Classification, collection, and reporting of manpower effort.
- (3) Classification, collection, and reporting of work accomplishment.
- (4) Development and reporting of labor production rates.
- (5) Collection and reporting of family development data related to classification of supply demand and flow of material in Navy supply system.
- (6) Development of statistical techniques for use in Bureau and field.

Finance and Reports Division (FD)

- (1) Development of prices and justification for the Bureau Operating Plan.
- (2) Development of allocations and allotments to assure economical implementation of the Operating Plan.
- (3) Development of manpower ceilings to assure coordination of labor and fund implementation of the Operating Plan.
- (4) Progress reporting of the Bureau Operating Plan with actual accomplishment and variations.

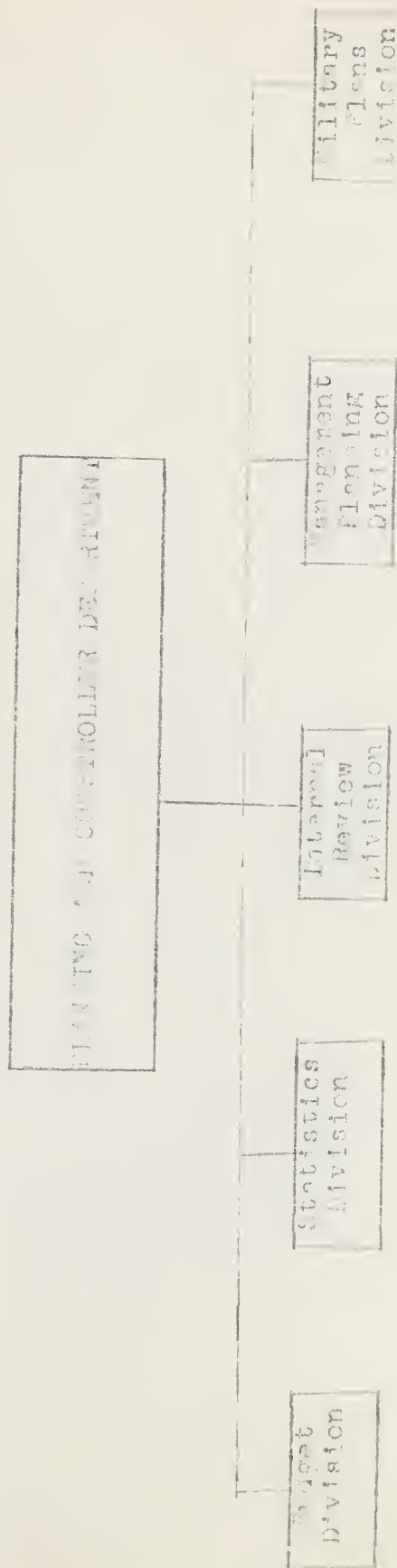
Internal Control Division (ID)

- (1) Development of appropriation and cost accounting systems.
- (2) Collection and reporting of appropriation and cost data.
- (3) Development and reporting of unit costs of operation.
- (4) Development of cost accounting techniques for use in Bureau and field.

Department of the Navy, Bureau of Supplies and Accounts, Organization Manual, Bureau of Supplies and Accounts, Publication 70. Revised 10 Dec., 1960.

APPENDIX B

ORGANIZATION CHART FOR PLANNING AND CONTROLLER DEPARTMENT¹



¹ Bureau of Supplies and Accounts
Department of the Navy, Bureau of Construction
October 4, 1934.

FUNCTIONAL STATEMENT FOR PLANNING AND CONTROLLER DEPARTMENT¹

1. PLANNING AND CONTROLLER DEPARTMENT

a. Scope.--The planning and controller department in a staff capacity, advises and assists the commanding officer in the achievement and maintenance of effectiveness, efficiency, and economy in the operation of the activity; prepares budget and manpower estimates; administers budgetary and manpower controls; performs management planning and internal review functions; and receives, analyzes, and recommends implementing action on nonroutine information and directives from higher authority which will have an important effect upon the operation of the naval activity, the character of its facilities and equipment, or the nature of the services rendered.

b. Budget Division.--The budget division provides guidance and instructions for preparation of the activity budget estimates; reviews budget estimates submitted by components and recommends approval, revision, or disapproval of items or estimates; prepares over-all activity budget estimates and justifications; estimates personnel ceiling requirements; recommends allocation of approved funds and ceilings to components within the activity; develops and administers controls of the utilization of funds and manpower to insure compliance under established limitations and control funds

¹Ibid

authorized to the activity; reviews plans and programs to insure financial feasibility; reviews program performance against the approved funding plan, analyzes overhead variances and other deviations therefrom, and recommends remedial action where appropriate; and reviews and analyzes expenditures to insure maximum effectiveness, efficiency and economy.

c. Statistics Division.--The statistics division collects, arranges, analyzes, and interprets statistical data reflecting the operation of the activity, personnel usage and requirements, and plant facilities; prepares charts, graphs, and other visual aids as required; coordinates the work measurement program and other statistical efforts and provides technical assistance to all organizational components in statistical matters; develops a statistical program with a view toward providing management with adequate statistics for maintaining administrative and operational controls; and compiles statistical data for future planning purposes.

d. Internal Review Division.--The internal review division reviews and evaluates the systems of checks and balances used for internal accounting controls and fiscal procedures in terms of adequacy and effectiveness, and recommends revisions thereto; recommends improvements in accounting and financial reporting systems; conducts periodic reviews and examinations of accounting and financial transactions, and based on such examinations, recommends remedial action to correct defects and to improve effectiveness of accounting and financial reporting operations; and develops programs for checking labor and material distribution to insure propriety of charges.

e. Management Planning Division.--The management planning division develops methods and procedures and prescribes appropriate management aids to facilitate review and evaluation of activity performance against established mission and functions; prepares and maintains organization charts; analyzes organizational structure and proposed changes thereto; reviews proposed key civilian position descriptions for organizational alignment; analyzes existing operating methods and procedures, including related equipment and internal forms and reports, with a view to: (1) improvement in effectiveness, efficiency and economy, and (2) insuring that standard operating methods and procedures are followed or that requests for deviations thereto have been submitted to, or that deviations have been authorized by the Bureau of Supplies and Accounts or other proper authority; develops or coordinates development of the activity's administrative issuances, and makes recommendations for changes thereto; administers management control programs such as methods improvement, reports control, and forms control; coordinates remedial action as a result of official inspections and surveys; develops and recommends over-all requirements for and the allocation of space, materials and equipment for internal use; investigates the need for and recommends changes in the capacity of physical plant for reference to the Shore Station Development Board which serves the activity; and, as assigned, conducts special studies and makes appropriate recommendations.

f. Military Plans Division.--The military plans division maintains current data and directives regarding mobilization

planning; prepares and maintains local supporting plans to accomplish the assigned mobilization tasks; and prepares and coordinates catastrophe, disaster, and local defense plans such as radiological safety, chemical and biological defense, and earthquake and fire.

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